



Economic Outlook

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Overview

Most indicators of the state economy through the third quarter continue to point to solid but slower growth in 2007. The main exception is slightly lower visitor arrivals. Despite the lower visitor arrivals, relatively strong employment and job growth should result in solid growth in income for Hawaii's people and tax revenues for the State. A decline in the number in housing resales shows slowdown in real estate transactions. However, relatively stable private building permit values and increases in government construction, should maintain overall growth in Hawaii construction for the rest of 2007 and into 2008.

Labor Force and Jobs

For the first three quarters of 2007, civilian employment averaged 634,650 persons, an increase of 8,700 persons or 1.4% higher than for the same period of 2006. The civilian labor force was 651,050, an increase of 8,900 persons or 1.4%. For the first nine months of 2007, the statewide unemployment rate averaged 2.5%, the same as last year.

During the first three quarters of 2007, Hawaii's economy added 2.0% or 12,600 more wage and salary jobs following a strong 2.4% job growth last year. Job increase was the largest in Professional and Business Services (4,300 jobs or 5.5%), followed by Construction (2,150 jobs or 6.1%), Food Service and Drinking Places (1,600 jobs or 2.8%), Health Care and Social Assistance (1,600 jobs or 2.8%), and Other

Services (650 jobs or 2.5%). The government added 1,300 jobs or 1.1%, while agriculture lost 450 jobs or 6.5% compared to the first three quarters of 2006.

Tax Revenues

Through the first nine months of 2007, State general fund tax revenues increased \$134.4 million or 3.9 percent from the same period last year. General excise and use tax (GET) collections increased \$139.0 million or 7.6 percent, while individual income tax collections remained nearly flat, increasing \$1.1 million or 0.1 percent. Transient accommodations tax (TAT) collections grew by \$6.3 million or 3.7 percent in the first three quarters of 2007 from the same period last year. These growth rates, while strong, were generally lower than the growth rates for the previous three years.

Viewed from the fiscal year perspective, compared with the first quarter of FY 06-07, State general fund tax collections were up 6.5% in the first quarter of FY 07-08. GET, net individual income tax collections, and TAT collections were up 6.7%, 4.8%, and 3.4%, respectively.

Personal Income

Nominal personal income, not adjusted for inflation, rose by more than \$3.1 billion or 6.7% in the first two quarters of 2007 compared to the same period of 2006. Wage and salary disbursements, accounting for about 57% of personal income, grew by more than \$1.7 billion or 6.6%.

Construction and Real Estate

The major indicators of Hawaii's construction activity maintained positive growth through the first three quarters of 2007 although the rates of growth have moderated considerably. The contracting tax base increased 17.6% during the first half of 2007 from the same period of 2006. During the first nine months of 2007, the total value of private building authorizations was virtually flat, decreasing \$6.7 million or 0.2% from 2006. The government contracts awarded increased \$60.8 million or 8.8% from the same period of 2006. The \$105 million or 11.6% decrease in additions and alterations was almost completely offset buy the \$100 million or 7.2% increase in residential permit value. The State Capital Improvement Project expenditures increased \$321.2 million or 64.1%.

In the first nine months of 2007, the number of existing units sold on Oahu was off 7.4% for single family homes and off 14.4% for condominiums, while the median prices were \$648,000 and \$325,000, respectively, increases of 2.2% and 4.8%, over the same time period in 2006.

During the first nine months of 2006, construction jobs increased 6.1% from the same period of 2006 to a record monthly average of 37,650 jobs. The construction industry added jobs in all counties, with growth ranging from a low of 4.7% in Honolulu to a high of 10.8% in Maui County.

County Economic Conditions

Through the first nine months of 2007, all counties showed positive growth in both labor force and civilian employment. Except for Hawaii County, unemployment rate was lower than 3.0% in each county. Total wage and salary jobs

showed growth in all counties, with growth being particularly stronger in Hawaii County and Kauai County.

Total visitor arrivals by air showed increases in the first third quarters of 2007 in all three Neighbor Island counties and remained about the same in Honolulu, compared to the same period of 2006. Visitor arrival growth on the Neighbor Islands came from gains in the domestic market. Total visitor days by air, however, decreased in all counties, except for Kauai.

For the first nine months of 2007, average civilian employment growth was the highest at 2.0% in Hawaii County, followed by 1.7% in Kauai County, 1.5% in Maui County, and 1.2% in Honolulu. Unemployment rate averaged 3.2% in Hawaii County and 2.4 to 2.5% in other three counties.

All counties showed positive job growth during the first nine months of 2007. The City and County of Honolulu picked up 8,250 wage and salary jobs or an increase of 1.8% from the same periop of 2006. The largest absolute increases were in Professional and Business services (3,500 jobs or 5.6%), followed by Health Care & Social Assistance, Construction, and Food Services and Drinking Places, each adding 1,100 to 1,200 jobs.

Hawaii County added 1,850 jobs or 2.8% in the first three quarters of 2007 over the same period of 2006. Construction, Food Services and Drinking Places, Retail Trade, Health Care & Social Assistance, Professional and Business Services, and Arts, Entertainment & Recreation had largest job increases in Hawaii County.

In the first nine months of 2007, Maui County added 1,600 jobs or 2.2% from that of 2006. The two biggest gains were in Professional & Business services and Construction. Kauai County increased 800 jobs, or 2.7%, lead by Accommodation, Construction, and Retail Trade.

During the first nine months of 2007, visitor arrivals by air increased 7.8%, 2.0%, and 0.8% in Kauai, Hawaii, and Maui Counties, respectively, from the same period last year, while arrivals were about the same in Honolulu. Hotel occupancy rates decreased in the first nine months of 2007 in all counties compared to the year-ago levels, with Honolulu decreasing 6.1 percentage points to 77.9%, Maui County decreasing 4.9 percentage points to 77.1%, Hawaii County decreasing 4.1 percentage points to 69.2%, and Kauai County decreasing a 0.4 percentage point to 76.6%.

Total tax collections grew in all counties in the first nine months of 2007 compared to the same period of 2006. GET tax collections showed the highest growth of 20.5% in Hawaii County, followed by 17.2% in Maui County, 13.5% in Kauai County, and 5.7% in Honolulu. Except for a small 0.7% decrease in Honolulu, net individual income tax collections increased in all other counties. Growth in net individual income tax collections ranged from a low of 3.1% in Maui to a high of 5.4% in Kauai. TAT collections grew 16.5% in Maui County, 9.4% in Kauai County, 3.8% in Hawaii County, compared to just 0.2% in Honolulu.

During the first three quarters of 2007, Honolulu and Kauai showed positive growth in the value of private building permits, increasing 15.6% and 5.9%, respectively, compared to the same period of 2006. The values of private building permits decreased 28.5% and 3.2% in Maui County and Hawaii County, respectively.

Outlook for the Economy

In its latest quarterly forecast, DBEDT continues to expect moderate growth in Hawaii's economy for the rest of 2007 and into 2008. Personal income, total wage and salary jobs, and state gross domestic product (GDP) are all forecast to grow over the next several years, but the growth rates are expected to be lower than those seen in the previous few years. Declines in international arrivals in the first half and some pullback in domestic arrivals in the latest quarter will result in a decline in total visitor arrivals for 2007. Visitor arrivals are expected to increase in 2008.

Despite decreased visitor arrivals through the first nine months of 2007, prospects for Hawaii's economy continue to appear positive. Federal spending remains strong. Increases in government contracts authorized more than offset the slight decreases in the value of private building permits, indicating more construction in future quarters. The value of government contracts awarded totaled \$753 million statewide, an 8.8% increase from the same period of 2006. The ongoing \$2.3 billion military housing privatization initiative will also add to positive growth in the Hawaii construction industry in coming years.

Projections of economic growth for the Mainland U.S. and Japan, Hawaii's two primary visitor markets, are reasonably strong for 2007 and next year. The November 2007 Blue Chip Economic Consensus Forecasts expect the 2007 real GDP growth to be 2.1% for the U.S. and 2.0% for Japan. In 2008, GDP growth is expected to be 2.4% for the U.S. and 2.0% for Japan. The U.S. consumer price index (CPI) is expected to increase 2.2% in 2007 and 2.6% in 2008.

Based on the data through the first 9 months of the year and the outlook in the near-term, total visitor arrivals and visitor days are expected to decrease 0.8% and 1.9%, respectively, in 2007. Total nominal (current dollar) visitor expenditures are forecast to increase 2.0%. Visitor days, visitor arrivals, and visitor expenditures are predicted to grow by 1.0%, 1.0%, and 4.0%, respectively, in 2008, followed by slightly higher growth in later years.

The nominal personal income is forecast to increase 6.4% in 2007 and 5.7% in 2008. Real personal income (inflation-adjusted) is expected to grow by 1.8% in both 2007 and 2008. Hawaii's real gross domestic product (GDP) growth, formerly called gross state product (GSP), is projected to be 2.9% in 2007 and 2.8% in 2008. Hawaii's inflation rate in 2007 is projected to be 4.5%, followed by 3.8% in 2008.

With a 2.0% growth in the first three quarters and solid prospect for continuing job growth in the rest of the year, total wage and salary job growth is expected to be 1.9% in 2007. Job growth is expected to moderate to 1.5% in 2008 and to 1.3% in 2009.

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